

**REPORT OF THE AUDIT OF THE
MERCER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MERCER COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Mercer County Fiscal Court for fiscal year ended June 30, 2010. We have issued unqualified opinions, based on our audit, on the governmental activities, each major fund, and aggregate remaining fund information financial statements of Mercer County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$8,607,742 as of June 30, 2010. Of this amount, the fiscal court had unrestricted net assets of \$4,296,150. The fiscal court had total debt principal as of June 30, 2010 of \$13,717,310 with \$769,431 due within the next year

Report Comments:

- 2010-01 Monthly and Quarterly Financial Statements Are Not Presented To Fiscal Court Timely
- 2010-02 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With GASB 34 and Department For Local Government Requirements And Should Inventory Capital Assets Periodically
- 2010-03 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund
- 2010-04 The Fiscal Court Should Improve Procedures Over Purchase Orders
- 2010-05 Bonds For Current Elected Officials Are Not On File With The County Clerk
- 2010-06 The Fiscal Court Shall Maintain Leave Balances For Employees
- 2010-07 Internal Controls Should Be Improved Over Cash Receipts, Expenditures and Information Systems
- 2010-08 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipt, Payroll And Reconciliation Processes
- 2010-09 The Fiscal Court Should Improve Purchase And Procurement Procedures

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT.....	1
MERCER COUNTY OFFICIALS.....	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
NOTES TO FINANCIAL STATEMENTS	25
BUDGETARY COMPARISON SCHEDULES	39
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	43
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	47
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	51
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	55
COMMENTS AND RECOMMENDATIONS.....	59
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Milward Dedman, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Mercer County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Mercer County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



To the People of Kentucky
 Honorable Steven L. Beshear, Governor
 Lori H. Flanery, Secretary
 Finance and Administration Cabinet
 Honorable Milward Dedman, Mercer County Judge/Executive
 Members of the Mercer County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mercer County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2011 on our consideration of Mercer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2010-01 Monthly and Quarterly Financial Statements Are Not Presented To Fiscal Court Timely
- 2010-02 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With GASB 34 and Department For Local Government Requirements And Should Inventory Capital Assets Periodically
- 2010-03 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund
- 2010-04 The Fiscal Court Should Improve Procedures Over Purchase Orders
- 2010-05 Bonds For Current Elected Officials Are Not On File With The County Clerk
- 2010-06 The Fiscal Court Shall Maintain Leave Balances For Employees
- 2010-07 Internal Controls Should Be Improved Over Cash Receipts, Expenditures and Information Systems
- 2010-08 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipt, Payroll And Reconciliation Processes
- 2010-09 The Fiscal Court Should Improve Purchase And Procurement Procedures

Respectfully submitted,



Crit Luallen
 Auditor of Public Accounts

March 30, 2011

MERCER COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Milward Dedman	County Judge/Executive
Ronnie Sims	Magistrate
J.B. Claunch	Magistrate
Larry Peyton	Magistrate
Donnie Webb	Magistrate
Wayne T. Jackson	Magistrate
Alvis Johnson	Magistrate

Other Elected Officials:

Ted Dean	County Attorney
Cleo W. Baker Jr.	Jailer
Chris Horn	County Clerk
Rose Bishop	Circuit Court Clerk
Chris Kehrt	Sheriff
David Best	Property Valuation Administrator
Sonny Ransdell	Coroner

Appointed Personnel:

Gayle Horn	County Treasurer
Sandy Sanders	Occupational Tax Collector
Billy Humphey	Road Supervisor

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

MERCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 12,458,116
Note Receivable (Hospital Equipment)	64,431
Total Current Assets	<u>12,522,547</u>
Noncurrent Assets:	
Note Receivable (Hospital Equipment)	102,879
Capital Assets - Net of Accumulated Depreciation	
Construction In Progress	3,231,131
Land and Land Improvements	254,884
Buildings	3,316,701
Other Equipment	623,146
Vehicles and Equipment	130,887
Infrastructure Assets - Net of Depreciation	<u>2,142,877</u>
Total Noncurrent Assets	<u>9,802,505</u>
Total Assets	<u>22,325,052</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	505,000
Financing Obligations Payable	<u>264,431</u>
Total Current Liabilities	<u>769,431</u>
Noncurrent Liabilities:	
Bonds Payable	11,880,000
Financing Obligations Payable	<u>1,067,879</u>
Total Noncurrent Liabilities	<u>12,947,879</u>
Total Liabilities	<u>13,717,310</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	4,199,070
Restricted For:	
Landfill	112,522
Unrestricted	<u>4,296,150</u>
Total Net Assets	<u><u>\$ 8,607,742</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 841,330	\$ 52,980	\$ 591,296	\$
Protection to Persons and Property	761,002	65,823	365,990	
General Health and Sanitation	158,268	169,355	126,478	
Social Services	67,296			
Recreation and Culture	160,268			
Roads	1,145,901		1,109,743	
Transportation Facilities and Services	8,238			
Other Transportation Facilities and Services	650		33,216	
Debt Service	529,313			203,421
Capital Projects	2,304,722			
Total Governmental Activities	\$ 5,976,988	\$ 288,158	\$ 2,226,723	\$ 203,421

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Net Profit Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Unrestricted Investment Earnings

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Net (Expenses) Revenues and Changes in Net Assets Primary Government	
Governmental Activities	
\$	(197,054)
	(329,189)
	137,565
	(67,296)
	(160,268)
	(36,158)
	(8,238)
	32,566
	(325,892)
	<u>(2,304,722)</u>
	<u>(3,258,686)</u>
	832,449
	67,997
	141,710
	1,155,606
	91,209
	279,090
	132,741
	137,577
	<u>97,440</u>
	<u>2,935,819</u>
	<u>(322,867)</u>
	<u>8,930,609</u>
\$	<u><u>8,607,742</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	General Fund	Road Fund	Jail Fund	Payroll and Net Profit Tax Fund	Public Properties Corporation Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,094,254	\$ 879,506	\$ 576,504	\$ 1,339,357	\$ 8,216,754
Total Assets	<u>1,094,254</u>	<u>879,506</u>	<u>576,504</u>	<u>1,339,357</u>	<u>8,216,754</u>
FUND BALANCES					
Reserved for:					
Encumbrances	1,376	2,794	188	113	
Capital Projects Fund					8,216,754
Landfill					
Unreserved:					
General Fund	1,092,878				
Special Revenue Funds		876,712	576,316	1,339,244	
Total Fund Balances	<u>\$ 1,094,254</u>	<u>\$ 879,506</u>	<u>\$ 576,504</u>	<u>\$ 1,339,357</u>	<u>\$ 8,216,754</u>

The accompanying notes are an integral part of the financial statements.

MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2010
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 351,741</u>	<u>\$ 12,458,116</u>
<u>351,741</u>	<u>12,458,116</u>
275	4,746
	8,216,754
112,522	112,522
	1,092,878
<u>238,944</u>	<u>3,031,216</u>
<u>\$ 351,741</u>	<u>\$ 12,458,116</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 12,458,116
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	12,892,098
Accumulated Depreciation	(3,192,472)
Receivable - Hospital Equipment	167,310
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,332,310)
Bonds	<u>(12,385,000)</u>
Net Assets Of Governmental Activities	<u>\$ 8,607,742</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Payroll and Net Profit Tax Fund</u>
REVENUES				
Taxes	\$ 1,321,103	\$	\$	\$ 1,246,814
Excess Fees	132,741			
Licenses and Permits	7,053			
Intergovernmental	887,285	1,068,219	126,644	
Charges for Services	71,444			
Miscellaneous	101,998	15,655	1,462	13,795
Interest	9,028	7,429	11,240	16,738
Total Revenues	<u>2,530,652</u>	<u>1,091,303</u>	<u>139,346</u>	<u>1,277,347</u>
EXPENDITURES				
General Government	715,535	7,200	963,702	41,833
Protection to Persons and Property	442,169	1,672		
General Health and Sanitation	150,164	8,104		
Social Services	48,261			
Recreation and Culture	160,268			
Roads		1,174,293		
Transportation Facilities and Services		8,238		
Other Transportation Facilities and Services		650		
Debt Service:				
Principal	420,000			
Interest	59,326			
Capital Projects				
Administration	916,678	176,926		
Total Expenditures	<u>2,912,401</u>	<u>1,377,083</u>	<u>963,702</u>	<u>41,833</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(381,749)</u>	<u>(285,780)</u>	<u>(824,356)</u>	<u>1,235,514</u>
Other Financing Sources (Uses)				
Bond Issuance				
Discount On Bond Issuance				
Payment of Bond Anticipation Note				
Transfers From Other Funds	1,550,000		800,000	
Transfers To Other Funds	(800,000)			(1,700,000)
Total Other Financing Sources (Uses)	<u>750,000</u>		<u>800,000</u>	<u>(1,700,000)</u>
Net Change in Fund Balances	368,251	(285,780)	(24,356)	(464,486)
Fund Balances - Beginning	726,003	1,165,286	600,860	1,803,843
Fund Balances - Ending	<u>\$ 1,094,254</u>	<u>\$ 879,506</u>	<u>\$ 576,504</u>	<u>\$ 1,339,357</u>

The accompanying notes are an integral part of the financial statements.

MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 200,738	\$ 2,768,655
		132,741
		7,053
203,421	127,800	2,413,369
		71,444
	30,508	163,418
69,554	2,664	116,653
<u>272,975</u>	<u>361,710</u>	<u>5,673,333</u>
185,340	15,000	1,928,610
	308,408	752,249
		158,268
		48,261
		160,268
	91,984	1,266,277
		8,238
		650
		420,000
255,377		314,703
2,304,722		2,304,722
125,528	142	1,219,274
<u>2,870,967</u>	<u>415,534</u>	<u>8,581,520</u>
<u>(2,597,992)</u>	<u>(53,824)</u>	<u>(2,908,187)</u>
12,385,000		12,385,000
(233,822)		(233,822)
(4,000,000)		(4,000,000)
	150,000	2,500,000
		(2,500,000)
<u>8,151,178</u>	<u>150,000</u>	<u>8,151,178</u>
5,553,186	96,176	5,242,991
2,663,568	255,565	7,215,125
<u>\$ 8,216,754</u>	<u>\$ 351,741</u>	<u>\$ 12,458,116</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 5,242,991
--	--------------

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	2,968,754
Depreciation Expense	(559,614)
Assets disposed of, net book value	(9,998)

Payment of Receivable Provides for Current Financial Resources to Government Funds, while at the Government-wide Level, a Reduction of the Receivable Occurs. These Transactions Have No Effect on Net Asset	(61,295)
--	----------

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources

Revenue Bond Proceeds	(12,385,000)
Bond and other debt	4,000,000
Financing Obligations Payments	<u>481,295</u>

Change in Net Assets of Governmental Activities	<u>\$ (322,867)</u>
---	---------------------

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	25
NOTE 2.	DEPOSITS.....	30
NOTE 3.	CAPITAL ASSETS	31
NOTE 4.	LONG-TERM DEBT	32
NOTE 5.	CHANGE IN LONG-TERM LIABILITIES	34
NOTE 6.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS	34
NOTE 7.	INTERLOCAL COOPERATION AGREEMENT	34
NOTE 8.	SOLID WASTE LANDFILL	35
NOTE 9.	EMPLOYEE RETIREMENT SYSTEM	35
NOTE 10.	DEFERRED COMPENSATION.....	36
NOTE 11.	INSURANCE	36
NOTE 12.	PRIOR PERIOD ADJUSTMENT	36

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Mercer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Mercer County Public Properties Corporation

The Board of Directors of the Mercer County Public Properties Corporation (Corporation) are also the members of the Mercer County Fiscal Court. The Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the acquisition and financing of any public project and cannot be sued in its own name without recourse to the Mercer County Fiscal Court. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts, or provide financial support to the corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within the financial statements of the County.

C. Mercer County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Mercer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Mercer County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Payroll and Net Profit Tax Fund - This fund is for the collection of local payroll taxes and net profit tax. The primary sources of revenue for this fund are payment of taxes for annual profit and payment of payroll taxes.

Public Properties Corporation Fund - This fund accounts for the funds used for the construction of the Mercer County Judicial Center. The Public Properties Corporation is a blended component of the County. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund and Landfill Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Payroll and Net Profit Fund and Landfill Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Public Properties Corporation Fund is presented as a capital projects fund. Capital project funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-45
Buildings and Building Improvements	\$ 25,000	10-60
Machinery and Equipment	\$ 5,000	3-20
Vehicles	\$ 5,000	3-20
Infrastructure	\$ 10,000	10-40

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A budget was not prepared for the Public Properties Corporation. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Mercer County Fiscal Court: North Mercer Water District and the Mercer County Public Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Mercer County Fiscal Court: Mercer County Industrial Development Authority, Anderson/Dean Park Board, and Greater Harrodsburg/Mercer County Planning and Zoning Commission.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 254,884	\$	\$	\$ 254,884
Construction In Progress	926,409	2,304,722		3,231,131
Total Capital Assets Not Being Depreciated	1,181,293	2,304,722		3,486,015
Capital Assets, Being Depreciated:				
Buildings	3,812,671			3,812,671
Equipment	1,135,897	215,519	(73,998)	1,277,418
Vehicles	736,036	20,899	(45,600)	711,335
Infrastructure	3,177,045	427,614		3,604,659
Total Capital Assets Being Depreciated	8,861,649	664,032	(119,598)	9,406,083
Less Accumulated Depreciation For:				
Buildings	(426,742)	(69,228)		(495,970)
Equipment	(630,632)	(89,640)	66,000	(654,272)
Vehicles	(581,055)	(42,993)	43,600	(580,448)
Infrastructure	(1,104,029)	(357,753)		(1,461,782)
Total Accumulated Depreciation	(2,742,458)	(559,614)	109,600	(3,192,472)
Total Capital Assets, Being Depreciated, Net	6,119,191	104,418	(9,998)	6,213,611
Governmental Activities Capital Assets, Net	\$ 7,300,484	\$ 2,409,140	\$ (9,998)	\$ 9,699,626

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 126,270
Protection to Persons and Property	8,753
Social Services	19,035
Roads, Including Depreciation of General Infrastructure Assets	<u>405,556</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 559,614</u>

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-Term Debt

A. First Mortgage Revenue Bond Anticipation Notes - Justice Center

On March 1, 2008, the Mercer County Public Properties Corporation issued \$4,000,000 of First Mortgage Revenue Bond Anticipation Notes. The proceeds from this issuance provides interim financing for the cost of development, acquisition and construction of a Justice Center, and pays the cost of issuance incurred with respect to the issuance of the Notes. The interest rate of 3.5% was payable each March 1 and September 1. On August 1, 2009, the Mercer County Public Properties Corporation issued First Mortgage Revenue Bonds to pay the remaining principal and interest of these bonds. As of June 30, 2010, there was not outstanding balance.

B. First Mortgage Revenue Bonds - Justice Center

On August 1, 2009, the Mercer County Public Properties Corporation issued \$12,385,000 of First Mortgage Revenue Bonds. The proceeds from this issuance will provide for the financing of the cost of acquisition, development and construction of a new courthouse facility, located within the city, to be used and leased by the Administrative Office of the Courts (AOC); pay the principal and interest of the First Mortgage Revenue Bond Anticipation Notes; pay capitalized and/or accrued interest, if any; and pay the cost of issuance incurred with respect to the issuance of bonds. Principal payments are due annually on August 1, and interest, which varies from 1.2% to 4.125%, is payable semiannually on February 1 and August 1. The outstanding principal balance as of June 30, 2010 was \$12,385,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	505,000	403,812
2012	510,000	397,212
2013	520,000	388,962
2014	530,000	378,982
2015	540,000	367,472
2016 - 2020	2,940,000	1,597,985
2021 - 2025	3,490,000	1,041,403
2026 - 2029	3,350,000	283,103
Totals	12,385,000	4,858,931

Also on August 1, 2009, Mercer County entered into a lease agreement with the Administrative Office of the Courts (AOC) which states that the AOC agrees to pay 100% of the debt service requirements. The AOC has an exclusive option to renew this agreement from biennium to biennium (July 1/June 30) for periods of two years at a time.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

C. Hospital Equipment/Note Receivable

In October 2007, the Mercer County Fiscal Court entered into a five-year lease agreement with the Kentucky Association of Counties Leasing Trust, in the amount of \$315,000, for the purchase of hospital equipment for use by James B. Haggin Memorial Hospital. Mercer County Fiscal Court and James B. Haggin Memorial Hospital entered into a sublease, with the hospital agreeing to make all payments required by the lease agreement. The interest rate is 4.111%. Principal and interest are due monthly. The balance outstanding as of June 30, 2010 was \$167,310. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 64,431	\$ 5,741
2012	67,727	3,141
2013	35,152	554
Totals	<u>\$ 167,310</u>	<u>\$ 9,436</u>

The County has also recorded a note receivable due for the amount of the debt incurred by the County as follows:

Current Portion:	\$ 64,431
Long-Term Portion:	<u>102,879</u>
Total	<u>\$ 167,310</u>

D. Gateway Building

In September 2008, the Mercer County Fiscal Court entered into a six-year lease agreement with the Kentucky Association of Counties Leasing Trust, in the amount of \$1,700,000 to finance the construction and renovation of an office building to be used by the County. Principal payments are due annually on March 20, and interest, at a variable rate, is due monthly. This agreement will cease on September 20, 2013. The outstanding principal balance as of June 30, 2010 is \$1,165,000. Future principal and interest requirements are:

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

D. Gateway Building (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 200,000	\$ 50,977
2012	200,000	42,801
2013	200,000	34,688
2014	685,000	7,185
Totals	<u>\$ 1,285,000</u>	<u>\$ 135,651</u>
Less Additional Payment:	<u>(120,000)</u>	
Total	<u>\$ 1,165,000</u>	

Note 5. Change in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Bond Anticipation Notes	\$ 4,000,000	\$	\$4,000,000	\$	\$
Revenue Bonds		12,385,000		12,385,000	505,000
Financing Obligations	<u>1,813,605</u>		<u>481,295</u>	<u>1,332,310</u>	<u>264,431</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 5,813,605</u>	<u>\$12,385,000</u>	<u>\$ 4,481,295</u>	<u>\$13,717,310</u>	<u>\$ 769,431</u>

Note 6. Interest on Long-Term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$59,326 in interest on financing obligations and \$255,377 in interest on bonds and notes.

Note 7. Interlocal Cooperation Agreement

Mercer County has entered into an Interlocal Cooperation Agreement with Boyle County to share in the cost of a regional jail facility. The facility is owned by Boyle County. Mercer County agreed to pay a percentage, not below 35%, not to exceed 50%, of the yearly costs in exchange to the use of the facility for Mercer County prisoners.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 8. Solid Waste Landfill

Mercer County Fiscal Court (the County) operated a landfill, which ceased operations on June 30, 1992. The County initiated closure operations in April 1991. Closure costs were estimated to be \$52,700 and the County completed the steps necessary to close the landfill. The County believes that it has met all federal, state, and local laws and regulations in regard to the closure of the landfill. Postclosure care consists primarily of groundwater monitoring and landscape maintenance. The County is required to file reports with the appropriate regulatory agencies regarding the findings and groundwater monitoring activities. Postclosure costs are included in the Landfill Fund for the fiscal year June 30, 2010. Mercer County expended approximately \$68,345 for postclosure costs. Future costs are estimated to be the same as what was spent in this fiscal year and have been budgeted in the Landfill Fund. Inflation, deflations, technology or applicable laws and regulations could affect these costs.

Note 9. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

The county's contribution for FY 2008 was \$237,903, FY 2009 was \$214,985, and FY 2010 was \$263,336.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 10. Deferred Compensation

The Mercer County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 11. Insurance

For the fiscal year ended June 30, 2010, Mercer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 12. Prior Period Adjustment

The June 30, 2009 net asset balance has been restated by \$2,000 to reflect a capital asset that had been incorrectly removed from the capital asset listing in previous years.

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,291,000	\$ 1,291,000	\$ 1,321,103	\$ 30,103
In Lieu Tax Payments	2,000	2,000		(2,000)
Excess Fees	121,502	121,502	132,741	11,239
Licenses and Permits	6,500	6,500	7,053	553
Intergovernmental Revenue	1,119,295	1,119,295	887,285	(232,010)
Charges for Services	75,625	75,625	71,444	(4,181)
Miscellaneous	84,500	84,500	101,998	17,498
Interest	21,500	21,500	9,028	(12,472)
Total Revenues	<u>2,721,922</u>	<u>2,721,922</u>	<u>2,530,652</u>	<u>(191,270)</u>
EXPENDITURES				
General Government	970,884	800,247	715,535	84,712
Protection to Persons and Property	490,072	561,662	442,169	119,493
General Health and Sanitation	220,750	225,041	150,164	74,877
Social Services	61,800	61,779	48,261	13,518
Recreation and Culture	162,250	164,018	160,268	3,750
Debt Service	312,000	492,000	479,326	12,674
Administration	1,125,191	1,038,200	916,678	121,522
Total Expenditures	<u>3,342,947</u>	<u>3,342,947</u>	<u>2,912,401</u>	<u>430,546</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(621,025)</u>	<u>(621,025)</u>	<u>(381,749)</u>	<u>239,276</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	964,195	964,195	1,550,000	585,805
Transfers To Other Funds	<u>(793,170)</u>	<u>(793,170)</u>	<u>(800,000)</u>	<u>(6,830)</u>
Total Other Financing Sources (Uses)	<u>171,025</u>	<u>171,025</u>	<u>750,000</u>	<u>578,975</u>
Net Changes in Fund Balance	(450,000)	(450,000)	368,251	818,251
Fund Balance - Beginning	<u>450,000</u>	<u>450,000</u>	<u>726,003</u>	<u>276,003</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,094,254</u>	<u>\$ 1,094,254</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 994,597	\$ 994,597	\$ 1,068,219	\$ 73,622
Miscellaneous	14,000	14,000	15,655	1,655
Interest	12,000	12,000	7,429	(4,571)
Total Revenues	<u>1,020,597</u>	<u>1,020,597</u>	<u>1,091,303</u>	<u>70,706</u>
EXPENDITURES				
General Government	9,700	9,700	7,200	2,500
Protection to Persons and Property	-	2,000	1,672	328
General Health and Sanitation	26,256	26,256	8,104	18,152
Roads	1,195,916	1,321,807	1,174,293	147,514
Transportation Facilities and Services	9,000	11,656	8,238	3,418
Other Transportation Facilities and Services	700	700	650	50
Capital Projects	10,000	9,000		9,000
Administration	328,294	198,747	176,926	21,821
Total Expenditures	<u>1,579,866</u>	<u>1,579,866</u>	<u>1,377,083</u>	<u>202,783</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(559,269)</u>	<u>(559,269)</u>	<u>(285,780)</u>	<u>273,489</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(65,408)	(65,408)		65,408
Total Other Financing Sources (Uses)	<u>(65,408)</u>	<u>(65,408)</u>		<u>65,408</u>
Net Changes in Fund Balance	(624,677)	(624,677)	(285,780)	338,897
Fund Balance - Beginning	<u>624,677</u>	<u>624,677</u>	<u>1,165,286</u>	<u>540,609</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 879,506</u>	<u>\$ 879,506</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 83,500	\$ 83,500	\$ 126,644	\$ 43,144
Charges for Services	3,000	3,000		(3,000)
Miscellaneous	1,000	1,000	1,462	462
Interest	13,000	13,000	11,240	(1,760)
Total Revenues	<u>100,500</u>	<u>100,500</u>	<u>139,346</u>	<u>38,846</u>
EXPENDITURES				
Protection to Persons and Property	903,470	933,670	963,702	(30,032)
Administration	30,200			
Total Expenditures	<u>933,670</u>	<u>933,670</u>	<u>963,702</u>	<u>(30,032)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(833,170)</u>	<u>(833,170)</u>	<u>(824,356)</u>	<u>8,814</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>793,170</u>	<u>793,170</u>	<u>800,000</u>	<u>(6,830)</u>
Total Other Financing Sources (Uses)	<u>793,170</u>	<u>793,170</u>	<u>800,000</u>	<u>(6,830)</u>
Net Changes in Fund Balance	(40,000)	(40,000)	(24,356)	15,644
Fund Balance - Beginning	<u>40,000</u>	<u>40,000</u>	<u>600,860</u>	<u>560,860</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 576,504</u>	<u>\$ 576,504</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

PAYROLL AND NET PROFIT TAX FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,033,642	\$ 1,033,642	\$ 1,246,814	\$ 213,172
Miscellaneous	20,000	20,000	13,795	(6,205)
Interest	19,000	19,000	16,738	(2,262)
Total Revenues	1,072,642	1,072,642	1,277,347	204,705
EXPENDITURES				
General Government	48,955	49,777	41,833	(7,944)
Administration	10,500	9,678		9,678
Total Expenditures	59,455	59,455	41,833	9,678
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	1,013,187	1,013,187	1,235,514	214,383
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(1,013,187)	(1,013,187)	(1,700,000)	(686,813)
Total Other Financing Sources (Uses)	(1,013,187)	(1,013,187)	(1,700,000)	(686,813)
Net Changes in Fund Balances			(464,486)	(464,486)
Fund Balances - Beginning			1,803,843	1,803,843
Fund Balances - Ending	\$ 0	\$ 0	\$ 1,339,357	\$ 1,339,357

MERCER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

THIS PAGE LEFT BLANK INTENTIONALLY

**MERCER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2010

MERCER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

	LGEA Fund	Landfill Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 238,944	\$ 112,797	\$ 351,741
Investments			
 Total Assets	<u>238,944</u>	<u>112,797</u>	<u>351,741</u>
FUND BALANCES			
Reserved for:			
Encumbrances		275	275
Landfill		112,522	112,522
Unreserved:			
Special Revenue Funds	<u>238,944</u>		<u>238,944</u>
 Total Fund Balances	<u>\$ 238,944</u>	<u>\$ 112,797</u>	<u>\$ 351,741</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010

MERCER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2010

	LGEA Fund	Landfill Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 100,208	\$ 100,530	\$ 200,738
Charges For Services		127,800	127,800
Miscellaneous		30,508	30,508
Interest	2,389	275	2,664
Total Revenues	<u>102,597</u>	<u>259,113</u>	<u>361,710</u>
EXPENDITURES			
General Government	15,000		15,000
General Health and Sanitation	2,000	306,408	308,408
Roads	91,984		91,984
Administration		142	142
Total Expenditures	<u>108,984</u>	<u>306,550</u>	<u>415,534</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(6,387)</u>	<u>(47,437)</u>	<u>(53,824)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds		150,000	150,000
Total Other Financing Sources (Uses)		<u>150,000</u>	<u>150,000</u>
Net Change in Fund Balances	(6,387)	102,563	96,176
Fund Balances - Beginning	245,331	10,234	255,565
Fund Balances - Ending	<u>\$ 238,944</u>	<u>\$ 112,797</u>	<u>\$ 351,741</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Milward Dedman, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 30, 2011. Mercer County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mercer County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mercer County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mercer County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations listed as 2010-07 and 2010-08 to be material weaknesses.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations listed as 2010-09 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Mercer County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendation as items 2010-01, 2010-02, 2010-03, 2010-04, 2010-05 and 2010-06.

The Mercer County Judge/Executive's responses to the findings identified in our audit are included in the comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 30, 2011

**MERCER COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2010

**MERCER COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2010

STATE LAWS AND REGULATIONS

2010-01 Monthly and Quarterly Financial Statements Are Not Presented To Fiscal Court Timely

KRS 68.020 states the Treasurer's Settlement should be presented to Fiscal Court within thirty (30) days of year-end. KRS 68.360 states that the monthly financial statements should be presented to the Fiscal Court within ten (10) days of month-end and quarterly reports should be presented within fifteen (15) days of the end of the quarter. During our review of fiscal court minutes, it was noted that monthly and quarterly reports are not presented to the Fiscal Court timely. It was noted that monthly financial statements were as many as three months late and the third quarter financial statement was not presented until June 2010.

The manual accounting system implemented by Fiscal Court is a time consuming process. Implementation of an automated system would reduce the turn-around time for financial statement production. Not presenting the financial statements to the Fiscal Court in a timely manner causes the Fiscal Court to be noncompliant with KRS requirements. It is recommended that the Fiscal Court implement procedures to ensure timely reporting of financial information to ensure compliance with KRS.

County Judge/Executive's Response: All monthly and quarterly reports are now current and have been presented to the Fiscal Court and the Department of Local Government on time. We will continue to do this in a timely manner. (Late reports occurred due to an increasing workload).

2010-02 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In Accordance With GASB 34 and Department For Local Government Requirements And Inventory Capital Assets Periodically

The Department for Local Government (DLG) Budget Manual outlines requirements for capital assets. The requirements specifically state "All contracts, invoices, purchase orders and authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records." The capital asset listing should be monitored and maintained on a regular basis. As a new asset is acquired, the asset should be added to the listing. As assets are disposed of, the asset should be removed from the listing. All invoices should be kept on file in a manner that allows for review by management and auditors.

The Fiscal Court did not have a completed capital asset schedule for fiscal year ending June 30, 2010. A list of capital asset additions and disposals were not properly maintained. Personnel responsible for maintenance of the capital asset listing were not informed of acquisitions and disposals of capital assets throughout the year. At the time of the audit, no updates to the capital asset schedule had been made for fiscal year 2010. The Fiscal Court cannot properly determine insurance needs, estimate potential needs for replacement assets, or determine if surplus property is owned without proper documentation of capital assets.

MERCER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS (Continued)

2010-02 The Fiscal Court Should Maintain Complete And Accurate Capital Asset Schedules In
Accordance With GASB 34 and Department For Local Government Requirements And
 (Continued)

To ensure compliance with GASB 34 and DLG requirements, it is recommended that the Fiscal Court maintain a complete and accurate capital asset schedule. Fiscal Court should ensure that the personnel responsible for maintenance of this list is aware of any acquisitions, disposals or trade in of capital assets with copies of invoices, documentation of asset disposals and fiscal court minutes. Furthermore, a schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name and the value of the asset.

County Judge/Executive's Response: We will maintain a complete and accurate Capital Asset Schedule.

2010-03 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation
Fund

The Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation (PPC). Unless otherwise specified by statute, the handling of these funds should be in accordance with the requirements for handling all county funds. Since the PPC is reported as a blended component unit of the county, the Fiscal Court should maintain proper documentation for all activity of the PPC. KRS 68.210, as prescribed by the state local finance officer, includes, but is not limited to; maintain receipts and disbursements journals, performing monthly bank reconciliations and preparing an annual financial statement.

During our audit, we could not locate bank statements for any of the PPC funds. Copies of these statements had to be requested from the bank. The Fiscal Court failed to prepare receipts and disbursements ledgers, bank reconciliations and financial statements for the Fiscal Year Ended June 30, 2010. In addition, supporting documentation could not be located for a number of construction expenditures made throughout the year.

Failure to maintain proper documentation and failure to provide the proper oversight could result in errors going undetected. We recommend that the Fiscal Court ensure that all bank statements are received and reconciled monthly and that receipts and disbursements ledgers and annual financial statements are prepared in accordance with KRS 68.210 as described above. We further recommend that the Fiscal Court maintain supporting documentation for all expenditures.

County Judge/Executive's Response: The County Judge's Office had never received any bank statements, but are now having those sent to us. We will prepare receipts and disbursements ledgers, bank reconciliations, and financial statements for the Fiscal Year End 2011.

MERCER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS (Continued)

2010-04 The Fiscal Court Should Improve Procedures Over Purchase Orders

The Department for Local Government (DLG) Budget Manual states “purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head. Purchase requests shall indicate proper appropriation account number to which the claim will be posted. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.” In addition, a purchase order journal should contain a “daily, chronological listing of all purchase orders issued. The listing is the book of original entry for all county purchases. The journal should indicate the purchase order number, issue approved by appropriation code to where the payment will be posted, vendor name, and date invoice is received, amount of invoice, date claim was reviewed by Fiscal Court, date paid and amount paid.”

During our testing of expenditures it was noted that no purchase orders were attached to the original invoices. Purchase orders could not be located for seven (7) transactions tested. Three (3) of the purchase orders located had no amounts and one (1) had no date on it. A purchase order listing was compiled at the end of the month; however, it was incomplete due to either purchase orders not being issued or the purchase orders were not filled out completely. Purchase orders were attached to supporting documentation, but never compared to original invoices prior to payment. All purchase orders and supporting documentation were grouped by month and filed. One month of purchase order documentation could not be located. With every month, there was a stack of purchase support that did not correspond to a purchase order.

Failure to maintain appropriate records for purchase orders could result in incorrect amounts being paid. It is recommended that the Fiscal Court require purchase orders be obtained prior to items being ordered or services received to determine if adequate funds and budget appropriation are available for the purchase. Purchase orders should be completely filled out at the time of issuance. Amounts are required for the Fiscal Court to complete an accurate encumbrance listing for the financial statements. Additionally, it is recommended that the purchase order listing be expanded to comply with the DLG Budget Manual requirements.

County Judge/Executive's Response: We are now in the process of implementing a new procedure for Purchase Orders that will bring us into compliance with the Auditors and Department for Local Government Budget Manual.

MERCER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS (Continued)

2010-05 Bonds For Current Elected Officials Are Not On File With The County Clerk

KRS 62.050 states that “no officer shall enter upon the duties of his office until he gives bond.” KRS 67.720, regarding bonds of judge/executives, states that Fiscal Court shall approve sureties of the bond and record the approval in its minutes. If Fiscal Court does not approve sureties, the Circuit Judge shall approve the sureties. It also requires that Fiscal Court shall file a record of the bonds with the County Clerk.

During our testing of official bonds, it was determined that no current bonds for any elected officials were on file with the County Clerk. The bonds were found unsigned in a file in the Treasurer’s office. To ensure compliance with KRS, it is recommended that the sureties be approved and the bonds be signed by the officials and filed with the County Clerk.

County Judge/Executive’s Response: Bonds for all elected officials were obtained and paid for before January 1, but we did fail to file these in the County Clerk’s Office. This has been corrected, and the bonds are now on file in the Co. Clerk’s Office.

2010-06 The Fiscal Court Shall Maintain Leave Balance For Employees

The Department for Local Government (DLG) Budget Manual states it is the responsibility of the judge/executive’s office to maintain time records for vacation and sick time. During our testing of payroll, it was noted that some employee time sheets had time records filled out by the employee. Others had no listing of time records. Based upon discussion with the County Treasurer, no one at the Fiscal Court is verifying that the time records recorded on the time sheets are accurate or maintaining record at a central level or current leave balances. The Fiscal Court was unable to produce a report of time records for County employees although the County’s payroll software has the capability to maintain this information for all employees.

Improper maintenance of time records could cause the Fiscal Court to allow excessive vacation or sick time to be paid to employees. Leave time should be monitored every payroll to ensure leave time is available to the employee prior to paying the employee for time taken off. We recommend the Fiscal Court comply with the DLG Budget Manual for time record keeping responsibilities.

County Judge/Executive’s Response: Since each elected official is responsible for maintaining vacation and sick leave for their employees, we were unaware that it should also be kept in the County Judge’s Office. We will begin keeping record of this to ensure the other offices are keeping correct records.

MERCER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES

2010-07 Internal Controls Should Be Improved Over Cash Receipts, Expenditures and Information
Systems

Implementation of good internal controls dictates how efficiently an office operates. During our review of internal controls, we noted the following weaknesses:

- Deposits are not maintained in a secure location until time of deposit.
- Blank checks are not stored in a secure location;
- Checks are not accompanied by original supporting documentation when signed.
- Computers are not password protected or logged off when not in use.
- Backups are not maintained offsite in a secure location.
- Computer software is not used to its full capability.

These weaknesses could result in the following:

- Failure to protect and limit access to deposits and blank checks could result in missing funds;
- Failure to review original supporting documentation before approval of checks could result in incorrect amounts or vendors being paid.
- Failure to protect computers when not in use could result in unauthorized access to the County's information.
- Failure to maintain backups offsite in a secure location could result in loss of County information in the event of theft or fire.
- Failure to use computer software to its full capability results in duplication of work and time.

In order to improve internal controls over these areas, we recommend the Fiscal Court:

- Maintain all deposits and blank checks in a secure location, limiting access to others;
- Review original supporting documentation before approval of checks to ensure accuracy;
- Implement a policy to instruct employees on their responsibility to maintain password privacy and confidentiality along with a policy to restrict physical access to computers to authorized personnel. Both policies should be in writing.
- Maintain backups in a secure location outside of the courthouse to ensure its safety.
- Utilize computer software to its full capability in order to increase efficiency and effectiveness.

County Judge/Executive's Response: We will improve our internal controls by adopting the recommendations of the auditors.

MERCER COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2010-08 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipt, Payroll and Reconciliation Processes

The Fiscal Court should maintain adequate segregation of duties to ensure functions are separated and not controlled by one individual. The Fiscal Court has a lack of adequate segregation of duties over the receipt, payroll and reconciliation processes. In relation to receipts, the County Treasurer receives mail, posts to the ledger, prepares bank reconciliations, prepares bank deposits and prepares the financial reports. The County Treasurer performs the entire payroll function, from entering time records to writing the payroll checks. There are not any documented review processes or compensating controls that exist over these areas.

Lack of segregation of duties increases the Fiscal Court's risk of misappropriation of assets, errors, inaccurate financial reporting and potential fraud risks. We recommend the Fiscal Court implement procedures to segregate duties over the receipt, payroll and reconciliation processes. If segregation of duties is not possible, due to a limited number of staff, strong oversight should be implemented and documented.

County Judge/Executive's Response: This Fiscal Court has hired an Assistant for the County Treasurer. She is learning the payroll process, and involved in each payroll by running computer reports for each department, preparing the checks for distribution to each employee, and helping with monthly reports for payroll withholdings. The County Judge/Executive also reviews and signs each payroll check. We will review our receipt, payroll, and reconciliation processes, and evaluate how we can incorporate procedures to segregate duties to each function.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY

2010-09 The Fiscal Court Should Improve Purchase And Procurement Procedures

Good internal controls dictate that adequate original supporting documentation be maintained for all disbursements. All original vendor invoices should be maintained with any supporting documentation. Supporting documentation may include purchase orders, original purchase receipt tickets, weight tickets, etc. During our testing of expenditures, we noted the following: original invoices could not be located for six (6) expenditures; three (3) expenditures were paid from a copy of faxed invoice, not an original document; five (5) expenditures were paid from monthly statements with no purchase support for the monthly statement; and three (3) invoices were not cancelled on the original document, but rather on a post-it note for fax cover sheet.

Failure to maintain proper original supporting documentation increases the risk of errors and/or misstatements going undetected. We recommend the Fiscal Court make vendor payments from original invoices that have been verified through the use of supporting documentation. It is also recommended that the original invoice be cancelled on the original document to prevent duplicate payment.

County Judge/Executive's Response: Most of the invoices from which we pay are original, but if the vendor faxes an invoice, we pay from the invoice they send. All invoices are stamped with a "Paid, Date, and Check Number." We will require an original invoice from the vendor from this point forward.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MERCER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2010**

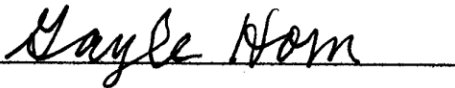
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MERCER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

The Mercer County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

